



News Release

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Washington, D.C.

Tel. 202.622.4000

For Release: 03/10/03

Release No: IR-2003-27

**IRS ISSUES TIPS ON COMPLETING SCHEDULES K-1;
MATCHING PROGRAM RESUMES WITH IMPROVEMENTS**

WASHINGTON _ The Internal Revenue Service today issued tips to taxpayers and tax professionals to help avoid errors related to Schedules K-1 used to report income from partnerships, S corporations and some trusts. Accurate filing of the forms is important as the IRS renews a program matching income from Schedules K-1 to other tax returns.

The IRS effort to improve the year-old matching program includes a longer term plan to eventually revise the Schedule K-1 and Schedule E, Supplemental Income. The redesign is expected to make the forms and related instructions easier to understand, simplify the filing process and reduce taxpayer burden. Greater outreach and the future form changes were among the recommendations made by a study group comprised of tax professionals and the IRS.

"We are pleased with the feedback we have received from the practitioner community regarding steps we can take to improve this important program", said IRS Acting Commissioner Bob Wenzel. "The IRS is committed to continuing its working relationship with the tax preparation community."

IRS Advisory Council Chair Roger Harris stated, "IRSAC and other outside stakeholder groups support an effective K-1 matching program. Despite problems with the start of the program, we are pleased with the IRS' attention to recommendations from the practitioner community. The agency has, as it should, responded to the issues outlined by the tax professionals. We look forward to a continued partnership that will enhance the matching program."

For tax year 2001, over 23 million Schedule K-1 forms were filed reporting over \$1 trillion in income to partners, shareholders and some trust beneficiaries. A matching program to ensure all Schedule K-1 income is being reported is critical to the IRS' tax administration policies.

The reminders issued by the IRS to taxpayers and tax professionals include:

- Report income in the proper location on individual returns as instructed by Schedule K-1, column (c).
- Avoid netting or combining income and deductions on Schedule E, except for passive activity income and deductions from Form 8582. Generally, income and related deductions (such as unreimbursed partnership expenses and the section 179 expense

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deduction) must be reported separately. For more details, refer to the Schedule E instructions.

- Report losses carried forward from prior years due to the at-risk and basis limitations on a separate line of Schedule E. Do not combine them with amounts reported for the current year.
- Refer to Form 8582, Passive Activity Loss Limitations, for instructions on properly reporting income and losses from passive activities. Beginning with tax year 2002, filers of Form 8582 must attach all three pages of Form 8582 (including the worksheets) to their tax returns.
- Report flow-through income even if a Schedule K-1 has not been received at the time the Form 1040 is filed. Except for partners in certain small partnerships, Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR), must be attached to the tax return to indicate that the partner, shareholder or beneficiary either did not receive a Schedule K-1 or disagrees with the amounts reported on the Schedule K-1.
- Identify amended information by checking the "Amended K-1" box on the Schedule K-1. The flow-through entity is responsible for ensuring that the box is clearly marked.

With changes in place, the matching program will begin issuing notices to some taxpayers later this year requesting more information about their 2001 tax return. For the enhanced matching program, the IRS will use additional filters during screening to substantially reduce the number of notices issued. The IRS expects the changes recommended by external stakeholders and implemented by the agency will reduce taxpayer burden and increase the overall effectiveness of the matching program.

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